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FEDERAL-PROVINCIAL RELATIONS

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## FEDERAL-PROVINCIAL RELATIONS

Jack Stilborn  
Political and Social Affairs Division

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## FEDERAL-PROVINCIAL RELATIONS\*

### ISSUE DEFINITION

Federal-provincial relations impact upon most of the major activities of government in Canada, and are in a state of virtually continuous evolution. Important sources of change are: the election of new governments with new political priorities and conceptions of the federal-provincial process; the social and political environment, which continuously generates new problems and issues; and accumulated experience with ever more complex intergovernmental relationships, which propels both political and institutional adjustment.

This paper reviews major developments on the federal-provincial scene, and relates them to ongoing issues and trends. On this basis, it attempts to anticipate probable directions in federal-provincial relations and in evolving institutions.

### BACKGROUND AND ANALYSIS

#### A. The Evolving System

The existing pattern of federal-provincial relations is the product of several related, and persisting, trends. The scope and scale of government has expanded steadily during this century. Governments have become involved in a range of policy fields never envisioned by the Fathers of Confederation and have, so to speak, occupied the "gap" between matters of national importance and matters of purely local significance expressed in sections 91 and 92 of the

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\* The original version of this Current Issue Review was published in February 1994; the paper has been regularly updated since that time. For a more detailed account of federal-provincial relations during the period 1986-1993, see Jack Stilborn, *Federal-Provincial Relations (1986-1993)*, CIR 86-2 (Archived), Library of Parliament, Ottawa.



*Constitution Act, 1867.* As well, the expanded performance of traditional core activities has revealed that, in practice, few local activities are entirely without larger national consequences and few of what were once seen as purely national matters are entirely unaccompanied by distinctively local significance. The result has been a tendency to replace, in practice, the constitutional division of powers and exclusive jurisdictions envisioned by early federalists with ad hoc and continuously negotiated arrangements under which each order of government employs the means at its disposal to attempt to discharge its fundamental responsibilities as it perceives them. Under such arrangements the electorate serves as an ultimate court of appeal, while appeal to the courts for decisions on jurisdictional questions is normally a strategic last resort of governments.

As the complex legislative and administrative arrangements of modern federalism have taken shape, federal-provincial relations have undergone a number of distinguishable phases. The fifties and sixties are widely described as the era of cooperative federalism, when steadily expanding resources and a broad federal-provincial consensus about priorities favoured technical cooperation by officials. Low levels of conflict and the rapid expansion of cost-shared programs were characteristic of this era. As the modern apparatus of coordinated activity took shape, however, strains began to appear. Provincial concerns about distorted priorities imposed by federal initiatives, visible particularly in the new assertiveness of Quebec, emerged both because newly achieved policy capabilities at the provincial level enabled the development of distinctive provincial positions and because new governmental roles raised new opportunities for federal-provincial divergence. There thus emerged a second phase of federal-provincial relations - widely termed executive federalism - characterized by the politicization of intergovernmental relationships, extensive federal-provincial interpenetration and interdependence, provincial assertiveness and growing levels of conflict. Contributing to these tensions were the financial constraints which emerged during the seventies, and the centralization of the administration of federal-provincial relations in the hands of process specialists, which tended to displace functional cooperation among officials sharing disciplinary specialties with forms of jurisdictional competition.

## B. The Early Eighties

The return to power of a Liberal government led by Pierre Trudeau in 1980 inaugurated a period during which many of the tensions characteristic of executive federalism erupted in overt conflict. During the early 1980s, the federal government showed an increased willingness to resort to unilateral action in the absence of federal-provincial agreement, notably in the threat to patriate the Constitution and in the introduction of the National Energy Program in 1980. The early eighties also saw the application of federal financial restraint measures to provincial transfers, notably by an amendment of the *Fiscal Arrangements and Established Programs Financing Act* in 1984 (made without consultation of the provinces) which made federal cash contributions for health and post-secondary education subject to the "6 and 5" restraint program.

During this period, also, federal concerns about the lack of visibility of federal contributions to cost-shared programs fostered a preference for the direct delivery of federal programs rather than the less visible federal funding of provincially administered programs. This shift is illustrated by the umbrella Economic and Regional Development Agreements, emphasizing coordinated planning but parallel service delivery, which replaced the General Development Agreements of the 1970s, and their emphasis on joint regional development programs. An analogous shift occurred concerning federal funds. The *Canada Health Act* of 1984, for example, required that the provinces provide "appropriate recognition" for federal funding of provincial health insurance programs. This Act, furthermore, illustrated a renewal of federal concern about the maintenance of national standards, and a willingness to impose financial sanctions on provinces not meeting standards formulated at the federal level.

As the Trudeau era drew to a close, a fundamental question about federal-provincial relations remained unanswered. Were the high levels of conflict of the early 1980s, and continuing controversy over such issues as the *Canada Health Act*, primarily an inevitable result of structural developments that had occurred during the seventies and thus, barring fundamental reforms, an indication of the probable future? Was conflict, on the other hand, primarily the result of a temporary conjunction of singular and intractable issues, as well as conflicting political personalities and agendas? The recurring attention devoted by the Trudeau administration to the possibility of



major reforms of federal institutions, including the strengthening of regional representation within the federal government by means of an elected Senate, implied one response to this question. A contrasting response was apparent, before and after the 1984 election, on the part of the Progressive Conservatives.

### C. The Mulroney Years

#### 1. 1984 - 1988

During the 1984 election campaign, Brian Mulroney and the Progressive Conservatives emphasized the importance of a renewed political commitment to federal-provincial cooperation, the value of skills of negotiation and conciliation, and the implicitly political (rather than institutional) objective of national reconciliation. These themes anticipated the initial focus of the new government.

During its first few months, the Mulroney government made substantial progress towards lessening federal-provincial tensions, notably in the area of energy policy agreements and the signature, with several provinces, of umbrella regional development agreements. As well, responsiveness to calls for federal assistance in the agricultural sector precluded significant conflict.

Finally, the conciliation skills of Prime Minister Mulroney were widely credited with the achievement, at Meech Lake on 30 April 1987, of unanimous federal-provincial agreement on a package of constitutional amendments responding to long-standing demands from Quebec.

Newly harmonious relations did not, however, eliminate all areas of conflict. The 23 May 1985 budget, which proposed reductions in the rate of increase of certain federal transfer payments, began a cycle in which successive federal restraint initiatives prompted more and more strident provincial protest. Other issues, such as provincial participation in free trade negotiations, a cash crisis in the oil industry in 1986, and individual regional development decisions, also provoked conflict.

#### 2. 1988 - 1993

The second Mulroney government followed the broad style of federal-provincial relations established by the first; however, a combination of systemic factors prevented a full return



of the harmony achieved in the mid-eighties. Among these factors were lower levels of political support at the federal level (favouring provincial assertiveness), resentments arising from individual conflicts, and the diverging priorities of the federal government and some newly elected provincial governments.

Constitutional affairs, often a source of federal-provincial conflict, moved steadily to the forefront during this period. In 1990, governments in Newfoundland and Manitoba elected after the Meech Lake Accord denied the accord the support required for ratification, despite a massive effort spearheaded by the federal government. Resentments arising from this process still echoed in 1992, although they did not prevent federal-provincial agreement on the wide-ranging "Canada round" package of amendments that was subsequently rejected in a national referendum.

Reductions in federal transfers prompted heightened provincial opposition during this period, including court challenges and the accusation from at least one premier that the federal government was guilty of "fiscal terrorism." As well, there were major disagreements with some provinces over the merits of stimulative spending versus those of deficit reduction and tax restraint, and these disagreements were reflected in conflicting policies.

In other sectors, the second Mulroney government generally maintained the pattern established by the first. Agreements such as the Canada-Quebec Accord on Immigration, signed on 5 February 1991, exemplify the accommodative style that broadly shaped federal-provincial relations between 1984 and 1993.

### 3. Observations

The experience of the Mulroney governments sheds light on the respective merits of institutional reform and reconciliatory politics, an issue that had arisen in the early eighties. There can be little doubt that the more conciliatory and accommodative style of federal-provincial relations practised after 1984 paid important dividends, most vividly in the speedy resolution of a range of issues that had been virtually at a stalemate in some policy sectors.

The federal government's new spirit of accommodation did not, however, diminish the outlying provinces' conviction that structural reforms were required to remove centrist biases within our federal system. On the contrary, these convictions rose to new heights during this period, as was seen among proponents of Senate reform during the "Canada round" discussions of

1992. Nor did an accommodative style at the federal level apparently lessen frustrations in Quebec. Any positive impacts of this approach appear to have been outweighed by unresolved constitutional dissatisfactions and economic concerns.

It is unclear whether the experience of the Mulroney governments illustrates the limits of accommodative federalism or, rather, the limited capacity of governments to practise this approach in the current fiscal environment. Either way, the pressures for structural reform that arose in the early 1980s continue to be salient in the 1990s. Opinions on whether or not existing institutional arrangements can respond successfully to current pressures are as divergent today as they were a decade ago.

#### D. Developments and Prospects

At the political level, federal-provincial relations are dependent upon the working relationships established among Ministers and First Ministers and policy objectives shared by all governments. In Canada, federal and provincial electoral politics traditionally follow a pattern in which provinces elect political parties that contrast ideologically with the governing party at the federal level. The federal governing party is subsequently replaced by one with views more akin to those prevailing in the provinces, a development favouring, however temporarily, more harmonious relations.

The election of a majority Liberal government on 25 October 1993 illustrates the second phase of the cycle. While federal-provincial conflict under the previous government never reached the extremes seen in the early eighties, the election of the new government favoured improved federal-provincial relations because of an increase in shared policy objectives, greater detachment from recent (notably fiscal) conflicts, and strengthened political support at the federal level which encouraged provincial cooperation.

~~A number of developments, however, muted and in some areas reversed the~~ cyclical trend. Among these was the 12 September 1994 election in Quebec. While the near-equality between the popular votes of the Liberals and Parti Québécois was widely seen as indicating declining popular support for separation, the fact of a provincial government firmly committed to this objective added complexity to all federal-provincial relationships.



With respect to the federal government and provinces other than Quebec, the election of a PQ government created the possibility of federal preoccupation with Quebec-related issues, and resentment of this in other regions. Tensions of this kind have remained largely absent, however, although the heightened importance of Quebec-related issues following the referendum of 30 October 1995 renews their possibility.

## 1. Constitutional Politics and Related Initiatives

While the 1993 election resulted in a national government committed to economic priorities rather than further attempts at constitutional reform, developments in Quebec have pushed the issue of that province's future status within the federation irresistibly to the forefront of national attention. The election in September 1994 of a Parti Québécois government fundamentally committed to independence was significant in this regard, as was the subsequent launching by the Quebec government of the sovereignty referendum process.

The result of the referendum of 30 October 1995 was an extremely narrow win for the federalist side, with 50.6% of the vote. In the aftermath of the vote, both federal and provincial government leaders affirmed the imperative need for action in response to what was widely seen as a wake-up call for Canada. Events of ensuing months suggest, however, that the referendum experience has not discernibly altered the political terrain on which initiatives of recent years have come to grief.

Mr. Bouchard, who assumed the leadership of the Parti Québécois and thus became Premier of Quebec in the wake of the referendum, has promised renewed attention to fiscal management and good government in the near future, as a prelude to a future independence referendum. It remains to be seen, however, whether Mr. Bouchard can successfully mitigate harsh divisions within the province which were exacerbated by the referendum. Ensuing months have seen the heightened visibility of *ad hoc* anti-secessionist groups advocating hard-line positions on issues such as partition. At the same time, language rights controversies have flared up as Quebec nationalists have pressed for a toughening of language legislation. For example, tensions between elements of the Parti Québécois and Mr. Bouchard were evident on 28 September 1996, when party members in Montréal Centre and Montréal Ville-Marie defied a strong last-minute appeal from their leader and voted overwhelmingly for the abolition of Law 86 and a return to unilingual French language signs.

At the federal level, the government has been seeking a balance between initiatives that demonstrate the capacity of the federal system to evolve and respond to the needs of Quebecers ("Plan A"), and initiatives that recognize the possibility of a "Yes" win in a future Quebec secession referendum ("Plan B").

#### **a. Initiatives in Parliament**

On the Plan A front, initiatives promised late in the referendum process were placed before Parliament at the end of 1995. The House of Commons subsequently endorsed a resolution recognizing Quebec as a distinct society, and approved legislation providing that no federal minister would place a constitutional resolution before Parliament without the consent of five regions (Atlantic Canada, Quebec, Ontario, the Prairies, and British Columbia). Greeted with derision by many Quebecers as inadequate to meet their traditional concerns, the legislation also provoked criticism elsewhere in Canada, especially over the failure of the initial version to recognize B.C. as a separate region. Indeed, Senate committee hearings held on this legislation during late January 1996 made it amply apparent that the ambitions, resentments and anxieties that stalemated attempts at constitutional change in recent years remain intact and unresolved. **Nevertheless, Bill C-110, An Act respecting constitutional amendments, was ultimately given parliamentary approval and received Royal Assent on 2 February 1996.**

#### **b. Manpower Training**

Action relating to the Prime Minister's manpower training commitment did not surface until 30 May of 1996, when the Minister of Human Resources Development, the Hon. Doug Young, offered the provinces and territories a proposal whereby they would assume responsibility for active employment measures funded through the Employment Insurance account.

As well, the federal government would turn over some \$2-billion in employment funding to the provinces and territories (with the condition that it be spent on people qualifying for unemployment insurance). The proposal received mixed reactions among the provinces, but was greeted as a positive signal by Premier Bouchard, who added that Quebec would seek improvements to it in negotiations.



Negotiations proceeded during the summer and fall, with the first agreement -- between the federal government and Alberta -- being announced on 6 December 1996. Aside from the administrative responsibilities transferred and its financial terms, the agreement is noteworthy for requiring that provincially administered services prominently display the Canadian flag and other forms of federal identification and comply with the federal *Official Languages Act*. A similar agreement was signed with New Brunswick on 13 December 1996.

While Quebec, Newfoundland and Prince Edward Island were reported to be close to signing as well, Ontario Intergovernmental Affairs Minister Diane Cunningham indicated that disagreements over funding continued to block progress for that province. More recently, in late January 1997, Quebec employment minister Louise Harel indicated that the pre-Christmas momentum in talks between Quebec and the federal government had been lost, and that several issues (including federal official languages requirements and funding levels) were major obstacles.

#### c. The June 1996 FMC

At the First Ministers' Conference of 20-21 June 1996 in Ottawa, it was very clear that participants felt the post-referendum environment was unpropitious for new attempts at constitutional change. Mr. Bouchard had announced before the conference that he would refuse to participate in any discussion of the Constitution. Prime Minister Chrétien, while criticizing Mr. Bouchard's position for blocking even the possibility of progress, obtained agreement that by placing the issue of the amending procedure on the conference agenda he had fulfilled the obligation for first ministerial review created by the constitutional amendments of 1982. This removed any requirement to hold constitutional talks by 1997.

#### d. The Canada Information Office

On 9 July 1996, an additional Plan A initiative was announced by Prime Minister Chrétien: the establishment of the Canada Information Office. Mandated to inform Canadians about the federal system and promote Canadian unity, the Office will report to the Minister of

Canadian Heritage, the Hon. Sheila Copps, and is expected to operate with a budget of some \$20 million. The Office was promptly dismissed as a propaganda exercise by spokesmen for the major opposition parties, while media and political reaction in Quebec ranged from guarded scepticism to derision.

#### **e. The Supreme Court Reference**

With respect to Plan B, on 25 September 1996, the Minister of Justice, the Hon. Allan Rock, affirmed the government's commitment to ensuring that the wording of any future referendum question will present Quebecers with a clear choice over secession. The following day he announced that he would refer three questions to the Supreme Court of Canada for determination of the government's legal position:

- (1) Under the Constitution of Canada, can Quebec secede from Canada unilaterally?
- (2) Does international law give Quebec the right to secede unilaterally (specifically, on the basis of a right to self-determination)?
- (3) In the event of a conflict between domestic and international law over unilateral secession rights, which law would take precedence in Canada?

Reaction from Quebec was predictably negative: Premier Bouchard dismissed the Constitution as irrelevant, on the grounds that it had never been accepted by Quebec; and decried what he portrayed as an attempt by the federal government to hold Quebec captive. Quebec Liberal Party leader Daniel Johnson also responded critically. In ensuing days, Minister Rock reiterated his position that the objective of the referral to the Supreme Court was not to preclude a consultative referendum, but to counter sovereignists' emerging assumption that Quebec has the right to act unilaterally. As well, the Minister of Intergovernmental Affairs, the Hon. Stéphane Dion, stressed that Quebec retains the right to pose any question it wishes, but that the result of a referendum would have to indicate public support for secession before Ottawa could be expected to accept the need to negotiate.

In the short term, the federal announcement provided Mr. Bouchard with a useful opportunity to rally the Parti Québécois and attempt to moderate internal tensions over language



rights and budget cuts. Equally, it bought the federal government time to develop other aspects of its unity strategy; the Supreme Court is expected to require 12 to 18 months to render a decision, which, according to Minister Dion on 30 September, must be known before further elements of the federal strategy are announced.

The governments of Canada and Quebec continue to be engaged in a fundamental competition for public support. At the same time, they cannot escape the need to cooperate (and to be seen to cooperate) in making the federal system respond effectively to public needs. This suggests that coming months will see a continuation of the oscillations between conflict and cooperation that have become familiar to observers of Canadian constitutional politics.

## 2. Money

Fiscal arrangements between the federal and provincial governments involve transfers of money to the provinces, and other matters such as the collection of taxes. The two major transfers are equalization payments, intended to ensure that all provinces have the fiscal capacity to provide minimally acceptable service levels, and the Canadian Health and Social Transfer (CHST), which combines federal contributions to support post-secondary education, health care and social assistance. At roughly \$25 billion per annum, payments under the CHST are the major federal transfer to the provinces, since equalization payments amount to only about \$9 billion per annum.

In an era when all governments are under considerable fiscal pressure, the issue of intergovernmental transfers is predictably sensitive. It acquires additional sensitivity within the context of Canadian federalism, however, because the federal government has traditionally used its spending power to foster programs reflecting federal priorities within provincial jurisdictions and to ensure that these meet national standards.

### a. Funding and Transfer Issues

The sensitivity of transfer issues was amply demonstrated by provincial reaction to the 1995-1996 budget. This announced that existing EPF and Canada Assistance Plan transfers would be replaced by a single block-funded program, the Canadian Social Transfer, which would involve overall reductions of some \$2.5 billion in 1996-1997 and an additional \$2 billion in 1997-

1998. While initial reaction from most provincial governments was harsh, generally positive reception by the public had the effect of muting such criticism (in open at least) in the weeks following the Budget. An additional factor here was undoubtedly the increased provincial discretion over the allocation of funding among the various programs that was enabled by the new transfer.

The basis for allocating the transfer continued to generate controversy, however. The wealthier provinces, including British Columbia, Alberta and Ontario, pressed during successive discussions in 1995 and 1996 for allocation on a per capita basis. Less wealthy provinces argued for continued use of provincial revenue-raising capacities as the basis for allocation. Following the failure of federal and provincial finance ministers to achieve consensus on the issue at a meeting on 8 and 9 February 1996, the 1996 federal budget announced that, over a five-year period, the current allocation would be modified so as initially to reflect population shifts among provinces and subsequently to take both provincial revenue-raising capabilities and population size into account.

More recently, the central importance of funding issues has been evident in discussions on a coordinated approach to child poverty, the integration of federal tax benefits and provincial welfare assistance. Discussions on this initiative continued intensively through December 1996 and January 1997, following the initial meeting on 27 November 1996 of an intergovernmental body (the Federal-Provincial-Territorial Ministerial Council on Social Policy Renewal) established by the June 1996 First Ministers' Conference to address social union issues. While agreement was speedily achieved on the urgency of the problem and the broad parameters of the benefit (eg., limiting the federal role to the distribution of tax benefits, and the need to avoid their being offset by provincial funding reductions), issues such as the level of federal funding remained unresolved as of the end of January 1997. At a 28 January meeting of social services ministers, provincial ministers pressed for new federal funding of \$1.2 billion annually, dismissing alternative options of \$300 million and \$600 million as insufficient. Final agreement was not reached, however.



## b. National Standards

The federal role in maintaining national standards for programs that are formally within provincial jurisdiction has prompted major controversy in recent years. Traditionally, the federal government used the spending power to foster programs meeting federal priorities, and employed the threat of reduced federal funding to induce provincial conformity with federal standards. In recent years, however, federal deficits have increasingly constrained this use of the spending power, and provincial governments have become increasingly resistant to what they see as federal intrusions within their jurisdiction.

These broader tensions are illustrated by recent controversy over newly assertive federal use of the *Canada Health Act*, which provides for the reduction of transfers to provinces that fail to meet federal requirements in the administration of health care. Controversy between Alberta and the federal government over the charging of "facility fees" by private clinics continued sporadically through the spring and summer of 1995 and, at a 6 November 1995 meeting, federal Health Minister Diane Marleau rejected an eleventh-hour Alberta compromise proposal which would have allowed doctors to combine payments from public and private sources. Federal penalties against Alberta of some \$422,000 per month commenced in October 1995 and remained in effect until July 1996. As of 1 July, under an agreement announced in May, the provincial government assumed interim responsibility for paying the facility fees charged by private clinics, while regional health authorities were to negotiate longer-term contracts with the clinics.

While this confrontation between the federal government and Alberta over facility fees was brought to an end by belated compliance with federal requirements, there is abundant evidence that the larger issue of federal and provincial roles in setting standards will not be as readily resolved. At the 20-21 June meeting of First Ministers, a policy paper jointly sponsored by all provinces except Quebec proposed termination of the current federal role as the sole interpreter of the *Canada Health Act*. Instead, the Act would be interpreted and enforced by a federal-provincial committee of cabinet ministers. The new arrangement was advocated by several premiers on the grounds that declining federal contributions to the health care system should lead to renunciation of the exclusively federal role in setting standards. Prime Minister Chrétien rejected

this proposal on the grounds that it would inevitably result in the erosion of principles that Canadians continue to support.

Furthermore, there are several instances of persisting provincial refusal to comply with national standards, notwithstanding continuing penalties. Manitoba, Nova Scotia and Newfoundland were made subject to penalties relating to facility fees at the same time as Alberta (although the dollar amounts were smaller); however, these provinces have continued to permit such fees. As well, British Columbia has not retracted the three-month residency period established as a requirement for social assistance eligibility in December 1995, even though a \$47.1 million federal penalty was levied in response. An 18 October 1996 meeting between Prime Minister Chrétien and B.C. Premier Glen Clark achieved progress on several provincial grievances, but no resolution of this issue.

#### c. Taxation

A recurring issue since the 1993 federal election has been the creation of some form of combined or coordinated federal and provincial sales tax. This would eliminate the costs to business of complying with two separate sales taxes in some provinces and would also permit the federal government to claim that it had fulfilled its election commitments to replace the federal sales tax (Goods and Services Tax, or GST) established by the previous government. Aside from a 1990 agreement for partial harmonization between the federal government and Quebec, which was reached shortly after the GST was established, progress towards the harmonization of federal and provincial sales taxes has been slow.

At a meeting of 29 June 1994, federal and provincial finance ministers discussed a federal proposal to combine federal and provincial sales taxes in a single 10% national tax (down from the combined 15% tax in Ontario, for example). Provincial reaction was unenthusiastic, however, and further discussions were deferred. The 13-14 October 1994 meeting between federal and provincial finance ministers did not produce agreement on the federal proposal for an integrated sales tax, although there was considerable provincial interest in possible replacements for the GST. Provincial positions ranged widely, from Ontario's proposal for a solely federal sales tax



balanced by increases to the provincial share of income taxes, to Quebec's emphasis on the retention of existing powers of taxation along with greater federal-provincial harmonization.

Discussions between the federal and provincial governments continued intermittently during 1995, but no further agreements were achieved. It was not until late April 1996 that an agreement in principle on the harmonization of federal and provincial sales taxes was reached between the federal government and New Brunswick, Newfoundland and Nova Scotia. The agreement provided for a three-year transitional period during which the provinces would receive \$961 million in compensation for revenues they would lose from lowering provincial sales tax rates.

At a June 1996 meeting of federal and provincial finance ministers, the arrangement made with the Atlantic provinces drew strong criticism from other provinces, notably Ontario and Alberta. Neither province would qualify for such compensation, Ontario because harmonization would not require lower provincial tax rates and Alberta because it has no provincial sales tax. As well, Quebec Finance Minister Bernard Landry argued that his province had harmonized several years ago without a compensation package, and demanded \$1.9 billion in compensation.

The federal Minister of Finance, the Hon. Paul Martin, rejected Quebec's claim on the grounds that changes to that province's sales tax had not involved losses of revenue, nor was Quebec's argument supported by other provinces. More broadly, the federal Finance Minister argued that the compensation package for Atlantic Canada would enable these provinces to enhance the competitiveness of their tax systems, and thus constituted a more effective form of federal assistance than traditional forms of federal intervention such as investments in megaprojects.

Sales tax harmonization thus remains unrealized, and the wealthier provinces' objections to prospective federal arrangements with the Atlantic provinces reveal continued resentment of the redistributive initiatives of the federal government outside the equalization program (the core program for providing fiscal assistance to the poorer provinces).

### 3. Administrative Agreements

As the modern federal system has taken shape, federal and provincial governments operating under their respective constitutional heads of power have both become involved in a range of policy fields never envisioned by the Fathers of Confederation. In order to coordinate

activities, clarify roles and ensure the meeting of objectives, governments have entered into formal agreements in many of these policy sectors.

Since shortly after the election of the present government, a process involving the review of federal and provincial responsibilities across a range of policy fields, clarification of roles, reduction of duplication and increasing efficiency, has gone forward steadily. Tangible results have been achieved in, for example, of agreements between the federal government and several provinces for the co-funding of business information centres; agreements with Ontario and Alberta to eliminate overlaps in international trade promotion; and a ground-breaking agreement between federal and provincial agricultural, health and fisheries ministers (those of Quebec excepted) to move toward a single food-inspection system.

The 20 November 1996 agreement-in-principle among federal and provincial/territorial environment ministers provides a further example of intergovernmental cooperation. This agreement sets out objectives and principles governing the participation of both levels of government in environmental management, and defines respective roles. The agreement also reflects discussions that took place intermittently during 1996. Formal ratification of the agreement is expected by May of 1997.

Another recent example of administrative cooperation is provided by the federal-provincial agreements to establish the framework for a national cost-shared farm safety net. During 1996, agreements were signed by the federal government and Alberta, Ontario, Prince Edward Island, New Brunswick, Newfoundland and (most recently, on 27 November 1996) Nova Scotia. At present, Manitoba and British Columbia are in the process of ratifying agreements, while discussions are continuing with Quebec and Saskatchewan. In recent weeks, reflecting longstanding criticism of the program, the government of Alberta withdrew from participation, but on 7 January 1997 the federal Minister of Agriculture, the Hon. Ralph Goodale, announced that the federal government would pick up the Alberta government's share of funding, leaving the program fully funded.



In general, pressures from Quebec for expanded provincial responsibilities, and pressures from other provinces for agreements similar to those involving Quebec, remain a predictable feature of the intergovernmental agreements process.

#### 4. Concluding Comments

During 1994 and 1995, ongoing provincial concerns about transfer payment issues were exacerbated by perceptions of unilateralism within the federal government's social policy review, while long-standing issues relating to Quebec returned to national prominence. Partly as a result of these developments, the cyclical benefits for federal-provincial relations resulting from the election of a new government have dissipated with unusual speed. **More recently, post-referendum political imperatives, in combination with fiscal restraint pressures, continue to heighten the sensitivity of all intergovernmental relationships.**

#### PARLIAMENTARY ACTION

Bill C-3, which would modify the equalization payment formula so as to increase transfers to poorer provinces, was introduced in the House on 25 January 1994. It received Royal Assent on 24 March 1994.

A motion to amend the Constitution to allow a fixed crossing as a substitute for steamboat service between Prince Edward Island and the mainland was moved in the House of 15 February 1994, and passed on 16 February. It was moved in the Senate on 24 February, and passed on 22 March 1994.

The 22 February 1994 budget extended the cap on welfare-related transfers to the wealthiest provinces, and proposed a freeze on welfare and post-secondary education transfers for fiscal year 1995-6. This was concurred in on 23 March 1994.

**The 27 February 1995 budget, concurred in on 5 June, announced the Canada Health and Social Transfer (CHST) - a new social program block funding arrangement which provoked major provincial protest over transfer reductions.**

Bill C-110, An Act respecting constitutional amendments, will "lend" the federal constitutional veto to Quebec and four other "regions"; it received Royal Assent on 2 February 1996, having been introduced in the House on 29 November 1995.

The 6 March 1996 budget, concurred in on 16 April 1996, announced new rules for allocating transfer payments among the provinces.

## CHRONOLOGY

- 21 December 1993 - Federal and provincial first ministers agreed to cooperate in a global review of federal and provincial roles and responsibilities, intended to identify areas of duplication and overlap.
- 21 January 1994 - Provincial governments reacted positively to federal revisions to the equalization formula.
- 22 February 1994 - Restraints on welfare and post-secondary education transfers announced in the federal budget drew muted provincial reactions except in Ontario, where Premier Rae strongly objected to them.
- 14 April 1994 - The Quebec National Assembly passed a resolution, supported by both the Liberals and the Parti Québécois, asserting exclusive provincial jurisdiction over manpower.
- 12 September 1994 - A Parti Québécois government was elected in Quebec, with a fractionally higher percentage of the vote than the defeated Liberals.
- 27 February 1995 - Reductions to provincial transfers announced in the federal budget initially drew strong criticism from provincial premiers.
- 30 October 1995 - The federalist side won a narrow 50.6% victory in the Quebec referendum.
- 20-21 June 1996 - A First Ministers' Conference achieved constructive progress on a range of issues, according to the Prime Minister and federalist participants, but demonstrated that the federation is frozen, according to Quebec Premier Bouchard.
- 25 September 1996 - The referral to the Supreme Court of three questions relating to the legality of unilateral secession by Quebec was announced by Minister of Justice the Hon. Allan Rock.



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